

City of Mount Clemens, Michigan

Financial Report
with Supplemental Information
June 30, 2008

City of Mount Clemens, Michigan

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City of Mount Clemens, Michigan

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Independent Auditor's Report

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mount Clemens, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budget comparison schedule, and retirement system schedules of funding progress and employer contributions, identified in the table of contents as required supplemental information, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Clemens, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 22, 2008

City of Mount Clemens, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Mount Clemens, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The City continued to monitor expenditures this year in the General Fund, adding approximately \$1,033,000 to fund balance. This savings is accomplished in part by the City disbanding the police department and contracting with the Macomb County Sheriff's Department in 2005. Also the City has been partnering with the Young Men's Christian Association of Metropolitan Detroit (YMCA) to provide the community with recreation education for the young and activities for all ages. Because of this partnership, the City renovated the Community Center this year which has been closed for the past five years. The YMCA now has more room to offer recreational programs to all citizens.
- Other items affecting the General Fund was that state-shared revenue, our second largest revenue source, remained relatively level. The City again received health insurance refunds due to favorable experiences. Also, this is the third year that the City's liability insurance was far lower than expected. The departments need to be recognized for the diligence in keeping to their budgets and finding new ways to control expenses.
- Governor Granholm announced that Mount Clemens had been selected for the Cool Cities Grant. The Cool Cities Grant designation is part of the economic plan to revitalize Michigan cities by retaining and attracting jobs and people to grow Michigan's economy.
- The City also received several other state and federal grants; some of these grants were for the reconstruction of Dickinson Street bridge, which covered 80 percent of the expenditures, lake and river clean-up program, West Nile Disease, DNR Emerald Ash Borer Grant, and Community Development Block Grants.

The City has been very proactive within the community to attract new construction and to rehabilitate homes by approving Neighborhood Enterprise Zones. Also, the City has approved a Tool/Die Renaissance Zone for a long-time manufacturing company located in Mount Clemens, an obsolete property rehabilitation for a downtown building that has been vacant for several years, and an industrial facility tax for E.I. DuPont de Nemours and Company, J.B. Cutting Inc., and CBS Boring and Machine. The combined total industrial facility tax was for the installation of new capital improvements up to \$36.5 million for a period of 12 years.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

E.I. DuPont is a global company and is currently the largest corporate taxpayer and the largest manufacturing employer in the City. E.I. DuPont will be making capital investments up to \$15 million, with the goal of sustaining and improving profitability. JB Cutting, Inc. is a full-service component manufacturer. Thermoforming cabinet components make up 80 percent of the business and service local customers with cutting, edging, and machining. JB Cutting, Inc. will invest approximately \$1.6 million in new machinery and equipment. CBS Boring and Machine specializes in the manufacture of power-train components including engine blocks, cylinder head, and transmission housings for the automotive, heavy-duty diesel truck, agricultural, and defense industries. CBS Boring and Machine Company currently operates five manufacturing plants in three states and supplies product to North America, Europe, and Japan. The facility they are moving into has been vacant and listed for sale for the past five years. Their \$19.5 million in investments will result in a total of at least 80 jobs that will be created over the next two years.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007 (in thousands of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Current assets | \$ 6,763 | \$ 6,130 | \$ 3,704 | \$ 2,834 | \$ 10,467 | \$ 8,964 |
| Noncurrent assets | <u>16,327</u> | <u>16,581</u> | <u>65,608</u> | <u>64,591</u> | <u>81,935</u> | <u>81,172</u> |
| Total assets | 23,090 | 22,711 | 69,312 | 67,425 | 92,402 | 90,136 |
| Liabilities | | | | | | |
| Current liabilities | 1,489 | 1,560 | 3,381 | 3,881 | 4,870 | 5,441 |
| Long-term liabilities | <u>4,095</u> | <u>3,944</u> | <u>31,486</u> | <u>30,002</u> | <u>35,581</u> | <u>33,946</u> |
| Total liabilities | <u>5,584</u> | <u>5,504</u> | <u>34,867</u> | <u>33,883</u> | <u>40,451</u> | <u>39,387</u> |
| Net Assets | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 12,283 | 12,500 | 31,781 | 32,246 | 44,064 | 44,746 |
| Restricted | 1,696 | 1,880 | 159 | 76 | 1,855 | 1,956 |
| Unrestricted | <u>3,527</u> | <u>2,827</u> | <u>2,505</u> | <u>1,220</u> | <u>6,032</u> | <u>4,047</u> |
| Total net assets | <u>\$ 17,506</u> | <u>\$ 17,207</u> | <u>\$ 34,445</u> | <u>\$ 33,542</u> | <u>\$ 51,951</u> | <u>\$ 50,749</u> |

Net assets of the governmental activities totaled approximately \$17.5 million at June 30, 2008, an increase of approximately 1.74 percent from June 30, 2007. Unrestricted net assets of the governmental activities, the part of net assets used to finance day-to-day operations, increased by \$700,000 over the June 30, 2007 balance of \$2,827,000.

In reviewing the City's net assets of business-type activities, the net assets invested in capital assets, net of related debt, decreased approximately 1.4 percent. Total net assets of the business-type activities increased by approximately \$903,000, primarily due to the increase in equity in the Sewage Disposal System Enterprise Fund.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2008 and 2007 (in thousands of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|---------------|-----------------------------|-----------------|-----------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 1,435 | \$ 1,333 | \$ 10,525 | \$ 10,343 | \$ 11,960 | \$ 11,676 |
| Operating grants and contributions | 1,316 | 1,585 | - | - | 1,316 | 1,585 |
| Capital grants and contributions | - | 568 | - | - | - | 568 |
| General revenue: | | | | | | |
| Property taxes | 6,397 | 7,142 | - | - | 6,397 | 7,142 |
| State-shared revenue | 2,047 | 2,058 | - | - | 2,047 | 2,058 |
| Unrestricted investment earnings | 209 | 247 | 83 | 85 | 292 | 332 |
| Franchise fees | 185 | 179 | - | - | 185 | 179 |
| Income from joint venture | 51 | 17 | - | - | 51 | 17 |
| Miscellaneous revenue | 557 | 668 | - | - | 557 | 668 |
| Total revenue | 12,197 | 13,797 | 10,608 | 10,428 | 22,805 | 24,225 |
| Program Expenses | | | | | | |
| General government | 2,984 | 3,024 | - | - | 2,984 | 3,024 |
| Public safety | 5,526 | 5,007 | - | - | 5,526 | 5,007 |
| Public works | 2,969 | 3,163 | - | - | 2,969 | 3,163 |
| Recreation and culture | 360 | 489 | - | - | 360 | 489 |
| Interest on long-term debt | - | 23 | - | - | - | 23 |
| Sewage disposal system | - | - | 4,166 | 4,144 | 4,166 | 4,144 |
| Water supply system | - | - | 2,311 | 2,316 | 2,311 | 2,316 |
| Sanitary system | - | - | 729 | 905 | 729 | 905 |
| Automobile parking system | - | - | 896 | 865 | 896 | 865 |
| Ice arena | - | - | 1,663 | 1,743 | 1,663 | 1,743 |
| Total program expenses | 11,839 | 11,706 | 9,765 | 9,973 | 21,604 | 21,679 |
| Excess of Revenue Over Expenses - Before transfers | 358 | 2,091 | 843 | 455 | 1,201 | 2,546 |
| Transfers | (60) | (1,455) | 60 | 1,455 | - | - |
| Change in Net Assets | <u>\$ 298</u> | <u>\$ 636</u> | <u>\$ 903</u> | <u>\$ 1,910</u> | <u>\$ 1,201</u> | <u>\$ 2,546</u> |

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's three largest revenue items are property taxes, which total 52.4 percent of the revenue; state-shared revenue at 16.8 percent; and operating grants and contributions at 10.8 percent. These three revenue sources total 80 percent of the total revenue. This past fiscal year, our revenue decreased as a result of modest increases in property tax revenue, a decrease in parking fines, and a reduction in federal and local grants.

Public safety and general government expenses in the governmental activities account for approximately 71.9 percent of the total amounts expended. Public works expense is the next largest function. This past three years, the City has experienced significant decreases in public safety expenses as a result of contracting police services through the Macomb County sheriff. In total, there was an increase in net assets totaling approximately \$299,000.

Business-type Activities

The City's business-type activities include water, sewer, sanitation, auto parking, and ice arena. The City provides water and sewer through its own water plant and sewage treatment plant. The ice arena is owned by the City, but is operated by a management company, and has provided the funds to cover all expenses including the bond issue for the building of the arena. These bonds were defeased in a previous year to lower the interest rate for a savings to the City, the management company, and the customers.

Rates for the various Enterprise Funds (Water, Sewer, Sanitation, Ice Arena, and Auto Parking) are reviewed and approved annually. Expenses are continuously reviewed and discussed with the City Commission.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental fund is the General Fund; all other funds are reported as nonmajor funds. The other supplemental information includes combining schedules that present the individual nonmajor funds. All of the City's Enterprise Funds are presented as major funds.

The General Fund pays for most of the City's governmental services. The most significant are police and fire and general government services, which incurred expenditures of approximately \$5 million and \$3.02 million, respectively, in 2008.

City of Mount Clemens, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the year, the City amended the budget to take into account various events that occurred during the year. Some of these events were health insurance refunds due to favorable experience; budgeted expenditures were reduced by approximately \$742,000 due to a reduction of legal services, liability insurance, pension transfers, fire department disbursement of earned wages, and reorganization of the inspection department.

Capital Asset and Debt Administration

In the current year, the City finished the reconstructed Dickinson Street Bridge and began projects to replace a water main, repair elevated storage tanks, and replace systems in the water treatment plant.

In the current year, the City made draws on funding provided through the State of Michigan's Drinking Water Fund program totaling \$3.6 million. Debt to be issued is expected to total \$3.89 million, with an interest rate of 2.25 percent and a 20-year amortization period. The bond will be used to address a mandate from the Michigan Department of Environmental Quality to replace the backwash system in the water treatment plant along with repairs to the elevated storage tank and a water main replacement. The City also recorded its interest in debt related to the construction of the new 41B District Court Building. Debt to finance the building was issued by the Charter Township of Clinton and is allocated among participating communities in proportion to the volume of cases attributable to each community. The City's portion of the debt at June 30, 2008 is \$3.3 million.

Current Economic Conditions and Next Year's Budget

The City will continue to face difficulty in balancing its budget due to inherent limitations on its primary sources of revenue. The three major funding sources for the City are property taxes, state-shared revenues, and fees and charges, all of which are subject to limitations that will prevent them from increasing by much more than the rate of inflation, for at least the foreseeable future. On the other hand, expenses are expected to increase by more than inflation in many areas such as health insurance, retiree benefits, and energy costs. Through the use of long-term planning, the City will continue to evaluate and monitor its budget. Adjustments will be made to address changes in economic conditions and other events.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (586) 469-6818.

City of Mount Clemens, Michigan

Statement of Net Assets June 30, 2008

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 4,760,890 | \$ 2,174,685 | \$ 6,935,575 | \$ 417,445 |
| Investments (Note 3) | - | 254,929 | 254,929 | - |
| Receivables: | | | | |
| Taxes | 77,855 | - | 77,855 | 5,610 |
| Customers | - | 1,665,025 | 1,665,025 | - |
| Special assessments | 8,211 | - | 8,211 | - |
| Other governmental units (Note 4) | 1,004,730 | - | 1,004,730 | - |
| Accrued interest and other | 113,849 | 8,871 | 122,720 | - |
| Internal balances (Note 6) | 634,940 | (634,940) | - | - |
| Inventories | - | 77,992 | 77,992 | - |
| Assets held for resale | - | - | - | 151,892 |
| Prepaid expenses | 162,981 | 79,004 | 241,985 | 2,143 |
| Other assets | - | 78,417 | 78,417 | - |
| Investment in joint venture (Note 13) | 217,637 | - | 217,637 | - |
| Restricted assets (Note 8) | - | 928,865 | 928,865 | - |
| Capital assets (Note 5): | | | | |
| Nondepreciable capital assets | 2,791,978 | 3,708,962 | 6,500,940 | - |
| Depreciable capital assets - Net | 13,317,024 | 60,970,252 | 74,287,276 | - |
| Total assets | 23,090,095 | 69,312,062 | 92,402,157 | 577,090 |
| Liabilities | | | | |
| Accounts payable | 251,656 | 368,049 | 619,705 | 60,628 |
| Accrued and other liabilities | 638,268 | 719,991 | 1,358,259 | 231 |
| Deferred revenue (Note 4) | 56,043 | - | 56,043 | - |
| Noncurrent liabilities (Note 7): | | | | |
| Due within one year | 542,781 | 2,293,025 | 2,835,806 | - |
| Due in more than one year | 4,095,046 | 31,486,238 | 35,581,284 | - |
| Total liabilities | 5,583,794 | 34,867,303 | 40,451,097 | 60,859 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 12,283,408 | 31,780,539 | 44,063,947 | - |
| Restricted: | | | | |
| Streets | 836,785 | - | 836,785 | - |
| Debt service | 346,148 | - | 346,148 | - |
| Bond reserve | - | 159,000 | 159,000 | - |
| Transportation | 512,719 | - | 512,719 | - |
| Unrestricted | 3,527,241 | 2,505,220 | 6,032,461 | 516,231 |
| Total net assets | \$ 17,506,301 | \$ 34,444,759 | \$ 51,951,060 | \$ 516,231 |

City of Mount Clemens, Michigan

| | Program Revenues | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 2,983,757 | \$ 650,518 | \$ 87,088 | \$ - |
| Public safety | 5,525,652 | 562,529 | 71,555 | - |
| Public works | 2,969,462 | 149,506 | 1,157,046 | - |
| Recreation and culture | 360,107 | 72,900 | 1,508 | - |
| Interest on long-term debt | 1,257 | - | - | - |
| Total governmental activities | 11,840,235 | 1,435,453 | 1,317,197 | - |
| Business-type activities: | | | | |
| Sewage disposal system | 4,165,948 | 4,397,549 | - | - |
| Water supply system | 2,310,570 | 2,991,370 | - | - |
| Sanitary system | 729,425 | 710,996 | - | - |
| Automobile parking system | 895,693 | 740,546 | - | - |
| Ice arena | 1,663,421 | 1,684,567 | - | - |
| Total business-type activities | 9,765,057 | 10,525,028 | - | - |
| Total primary government | <u>\$ 21,605,292</u> | <u>\$ 11,960,481</u> | <u>\$ 1,317,197</u> | <u>\$ -</u> |
| Component unit - Downtown Development Authority | | | | |
| | <u>\$ 650,651</u> | <u>\$ 111,178</u> | <u>\$ -</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Property taxes | | | | |
| State-shared revenues | | | | |
| Unrestricted investment earnings | | | | |
| Franchise fees | | | | |
| Miscellaneous | | | | |
| Income from joint venture | | | | |
| Gain on sale of assets | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year | | | | |
| Net Assets - End of year | | | | |

Statement of Activities
Year Ended June 30, 2008

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|--------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (2,246,151) | \$ - | \$ (2,246,151) | \$ - |
| (4,891,568) | - | (4,891,568) | - |
| (1,662,910) | - | (1,662,910) | - |
| (285,699) | - | (285,699) | - |
| (1,257) | - | (1,257) | - |
| (9,087,585) | - | (9,087,585) | - |
| - | 231,601 | 231,601 | - |
| - | 680,800 | 680,800 | - |
| - | (18,429) | (18,429) | - |
| - | (155,147) | (155,147) | - |
| - | 21,146 | 21,146 | - |
| - | 759,971 | 759,971 | - |
| (9,087,585) | 759,971 | (8,327,614) | - |
| - | - | - | (539,473) |
| 6,396,778 | - | 6,396,778 | 415,599 |
| 2,046,855 | - | 2,046,855 | - |
| 208,822 | 82,980 | 291,802 | 6,831 |
| 185,295 | - | 185,295 | - |
| 556,783 | - | 556,783 | - |
| 51,391 | - | 51,391 | - |
| 800 | - | 800 | - |
| (60,000) | 60,000 | - | - |
| 9,386,724 | 142,980 | 9,529,704 | 422,430 |
| 299,139 | 902,951 | 1,202,090 | (117,043) |
| 17,207,162 | 33,541,808 | 50,748,970 | 633,274 |
| \$ 17,506,301 | \$ 34,444,759 | \$ 51,951,060 | \$ 516,231 |

City of Mount Clemens, Michigan

Governmental Funds Balance Sheet June 30, 2008

| | Major Fund - General Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|------------------------------|--|--------------------------------|
| Assets | | | |
| Cash and cash equivalents (Note 3) | \$ 2,692,720 | \$ 1,693,972 | \$ 4,386,692 |
| Receivables: | | | |
| Taxes | 77,855 | - | 77,855 |
| Special assessments | - | 8,211 | 8,211 |
| Other governmental units (Note 4) | 824,830 | 179,900 | 1,004,730 |
| Accrued interest and other | 95,591 | 15,958 | 111,549 |
| Prepaid expenses | 151,466 | 6,938 | 158,404 |
| Due from other funds (Note 6) | 754,846 | - | 754,846 |
| Total assets | <u>\$ 4,597,308</u> | <u>\$ 1,904,979</u> | <u>\$ 6,502,287</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 124,753 | \$ 97,898 | 222,651 |
| Accrued and other liabilities | 131,454 | 11,219 | 142,673 |
| Deferred revenue (Note 4) | 140,250 | 64,254 | 204,504 |
| Due to other funds (Note 6) | 120,516 | - | 120,516 |
| Due to other governmental units | 116,793 | - | 116,793 |
| Total liabilities | 633,766 | 173,371 | 807,137 |
| Fund Balances | | | |
| Reserved: | | | |
| Debt service | - | 346,148 | 346,148 |
| Prepaid expenses | 151,466 | 6,938 | 158,404 |
| Long-term receivable from Ice Arena Fund | 534,846 | - | 534,846 |
| Unreserved: | | | |
| Designated (Note 12) | 1,600,000 | - | 1,600,000 |
| Undesignated | 1,677,230 | - | 1,677,230 |
| Unreserved and undesignated - Reported in nonmajor Special Revenue Funds | - | 1,378,522 | 1,378,522 |
| Total fund balances | <u>3,963,542</u> | <u>1,731,608</u> | <u>5,695,150</u> |
| Total liabilities and fund balances | <u>\$ 4,597,308</u> | <u>\$ 1,904,979</u> | |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | | | 15,208,010 |
| Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures | | | 148,461 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | | | (4,220,572) |
| Accrued interest is recognized when incurred in the statement of net assets | | | (3,206) |
| Environmental liabilities are not due and payable in the current period and are not reported in the funds | | | (375,000) |
| The investments in joint venture are not reported in the funds | | | 217,637 |
| Internal Service Funds are included as part of governmental activities | | | 835,821 |
| Net assets of governmental activities | | | <u>\$ 17,506,301</u> |

City of Mount Clemens, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

| | Major Fund - General Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|------------------------------|--|--------------------------------|
| Revenue | | | |
| Property taxes | \$ 5,949,655 | \$ 400,889 | \$ 6,350,544 |
| Federal entitlement and grant revenue | 151,605 | - | 151,605 |
| State-shared grants and other revenue | 2,140,290 | 1,109,244 | 3,249,534 |
| Local intergovernmental revenue | - | 63,203 | 63,203 |
| Special assessments | - | 72,611 | 72,611 |
| Charges for services | 951,411 | 73,741 | 1,025,152 |
| Licenses and permits | 352,788 | - | 352,788 |
| Interest | 119,578 | 67,925 | 187,503 |
| Fines and fees | 273,438 | - | 273,438 |
| Miscellaneous revenue | 449,885 | 14,752 | 464,637 |
| Total revenue | 10,388,650 | 1,802,365 | 12,191,015 |
| Expenditures | | | |
| Current: | | | |
| General government | 2,055,719 | - | 2,055,719 |
| Public safety | 4,452,165 | - | 4,452,165 |
| Public works | 745,310 | 1,902,818 | 2,648,128 |
| Recreation | 261,702 | - | 261,702 |
| Other functions | 1,760,804 | - | 1,760,804 |
| Debt service: | | | |
| Principal retirement | - | 100,000 | 100,000 |
| Interest and fiscal charges | - | 6,981 | 6,981 |
| Total expenditures | 9,275,700 | 2,009,799 | 11,285,499 |
| Excess of Revenue Over (Under) Expenditures | 1,112,950 | (207,434) | 905,516 |
| Other Financing Sources (Uses) | | | |
| Transfers in (Note 6) | - | 217,431 | 217,431 |
| Transfers out (Note 6) | (80,000) | (197,431) | (277,431) |
| Total other financing sources (uses) | (80,000) | 20,000 | (60,000) |
| Change in Fund Balances | 1,032,950 | (187,434) | 845,516 |
| Fund Balances - Beginning of year | 2,930,592 | 1,919,042 | 4,849,634 |
| Fund Balances - End of year | <u>\$ 3,963,542</u> | <u>\$ 1,731,608</u> | <u>\$ 5,695,150</u> |

City of Mount Clemens, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

| | |
|--|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 845,516 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Capital outlay expenditures | 337,911 |
| Depreciation expense | (855,126) |
| Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end | (26,908) |
| Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt) | 100,000 |
| Accrued interest is recorded on debt when incurred in the statement of activities | 5,724 |
| Increase in accumulated employee compensated absences is recorded when earned in the statement of activities | (162,290) |
| Income from joint ventures is not recorded in the funds | 51,391 |
| Internal Service Funds are also included as governmental activities | 2,921 |
| Change in Net Assets of Governmental Activities | <u>\$ 299,139</u> |

City of Mount Clemens, Michigan

| | Enterprise Funds | | |
|---|---------------------------|------------------------|------------------------|
| | Sewage Disposal System | Water Supply System | Sanitary Department |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 3) | \$ 588,076 | \$ 228,787 | \$ 707,703 |
| Investments (Note 3) | - | - | 254,929 |
| Receivables: | | | |
| Customers | 940,120 | 712,121 | 7,038 |
| Accrued interest and other | - | 677 | - |
| Prepaid expenses | 39,758 | 30,931 | 8,315 |
| Due from other funds (Note 6) | 1,889 | - | 1,628 |
| Inventories | 6,694 | 58,446 | - |
| Total current assets | 1,576,537 | 1,030,962 | 979,613 |
| Noncurrent assets: | | | |
| Due from other funds (Note 6) | 716,387 | - | - |
| Other assets | - | - | - |
| Restricted assets (Note 8) | 132,950 | 485,395 | - |
| Capital assets (Note 5): | | | |
| Nondepreciable capital assets | 2,600 | - | - |
| Depreciable capital assets - Net | 38,689,771 | 15,879,299 | - |
| Total noncurrent assets | 39,541,708 | 16,364,694 | - |
| Total assets | 41,118,245 | 17,395,656 | 979,613 |
| Liabilities | | | |
| Current liabilities: | | | |
| Current portion of long-term debt (Note 7) | 1,022,775 | 427,250 | - |
| Accounts payable | 86,482 | 139,657 | 74,742 |
| Accrued and other liabilities | 356,642 | 123,843 | 2,841 |
| Due to other funds (Note 6) | 50,000 | 23,611 | - |
| Total current liabilities | 1,515,899 | 714,361 | 77,583 |
| Current liabilities payable from restricted assets (Note 8) | 57,450 | 401,895 | - |
| Due to other funds (Note 6) | - | 716,387 | - |
| Long-term debt - Net of current portion (Note 7) | 12,813,480 | 11,669,362 | 11,992 |
| Total noncurrent liabilities | 12,813,480 | 12,385,749 | 11,992 |
| Total liabilities | 14,386,829 | 13,502,005 | 89,575 |
| Net Assets (Deficit) | | | |
| Invested in capital assets - Net of related debt | 24,957,770 | 3,856,674 | - |
| Restricted - Revenue bond ordinances | 75,500 | 83,500 | - |
| Unrestricted | 1,698,146 | (46,523) | 890,038 |
| Total net assets (deficit) | \$ 26,731,416 | \$ 3,893,651 | \$ 890,038 |

Proprietary Funds
Statement of Net Assets (Deficit)
June 30, 2008

| Enterprise Funds | | | Governmental Activities |
|------------------------------|-------------------|---------------------------|-----------------------------|
| Automobile Parking System | Ice Arena | Total Enterprise Funds | Internal Service Fund |
| \$ 640,897 | \$ 9,222 | \$ 2,174,685 | \$ 374,198 |
| - | - | 254,929 | - |
| 5,746 | - | 1,665,025 | 1,708 |
| 2,901 | 5,293 | 8,871 | 592 |
| - | - | 79,004 | 4,577 |
| - | - | 3,517 | 610 |
| - | 12,852 | 77,992 | - |
| 649,544 | 27,367 | 4,264,023 | 381,685 |
| - | - | 716,387 | - |
| 78,417 | - | 78,417 | - |
| 310,520 | - | 928,865 | - |
| 3,706,362 | - | 3,708,962 | - |
| 2,805,876 | 3,595,306 | 60,970,252 | 900,992 |
| 6,901,175 | 3,595,306 | 66,402,883 | 900,992 |
| 7,550,719 | 3,622,673 | 70,666,906 | 1,282,677 |
| 150,000 | 315,000 | 1,915,025 | 65,781 |
| 29,599 | 37,569 | 368,049 | 29,005 |
| 107,508 | 47,812 | 638,646 | 596 |
| 30,000 | - | 103,611 | - |
| 317,107 | 400,381 | 3,025,331 | 95,382 |
| - | - | 459,345 | - |
| - | 534,846 | 1,251,233 | - |
| 4,654,735 | 2,336,669 | 31,486,238 | 351,474 |
| 4,654,735 | 2,871,515 | 32,737,471 | 351,474 |
| 4,971,842 | 3,271,896 | 36,222,147 | 446,856 |
| 2,022,458 | 943,637 | 31,780,539 | 483,737 |
| - | - | 159,000 | - |
| 556,419 | (592,860) | 2,505,220 | 352,084 |
| \$ 2,578,877 | \$ 350,777 | \$ 34,444,759 | \$ 835,821 |

City of Mount Clemens, Michigan

| | Enterprise Funds - Major Funds | | |
|---|--------------------------------|---------------------|---------------------|
| | Sewage Disposal | Water Supply System | Sanitary Department |
| Operating Revenue | | | |
| Customer billings | \$ 4,303,376 | \$ 2,844,655 | \$ 675,235 |
| Billings to other funds | - | - | - |
| Other revenue | 94,173 | 146,715 | 35,761 |
| Total operating revenue | 4,397,549 | 2,991,370 | 710,996 |
| Operating Expenses | | | |
| Cost of materials | 125,493 | 182,865 | 8,513 |
| Water supply and sewage disposal | 1,869,390 | 973,446 | - |
| Maintenance and operation | - | - | 720,741 |
| General and administrative | 539,370 | 391,083 | 81 |
| Depreciation | 1,238,294 | 520,624 | 90 |
| Total operating expenses | 3,772,547 | 2,068,018 | 729,425 |
| Operating Income (Loss) | 625,002 | 923,352 | (18,429) |
| Nonoperating Revenue (Expenses) | | | |
| Interest income | 12,501 | 20,614 | 21,598 |
| Interest expense | (393,401) | (242,552) | - |
| Income (Loss) - Before transfers | 244,102 | 701,414 | 3,169 |
| Transfers In | - | - | - |
| Net Change in Net Assets | 244,102 | 701,414 | 3,169 |
| Net Assets - Beginning of year | 26,487,314 | 3,192,237 | 886,869 |
| Net Assets - End of year | <u>\$ 26,731,416</u> | <u>\$ 3,893,651</u> | <u>\$ 890,038</u> |

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2008

| Enterprise Funds - Major Funds | | | Governmental Activities |
|--------------------------------|-------------------|---------------------------|-----------------------------|
| Automobile Parking System | Ice Arena | Total Enterprise Funds | Internal Service Fund |
| \$ 739,843 | \$ 1,684,567 | \$ 10,247,676 | \$ - |
| - | - | - | 689,056 |
| 703 | - | 277,352 | 27,094 |
| 740,546 | 1,684,567 | 10,525,028 | 716,150 |
| 4,903 | 127,191 | 448,965 | 237,049 |
| - | - | 2,842,836 | - |
| 419,966 | 1,055,930 | 2,196,637 | 316,061 |
| 60,065 | 145,893 | 1,136,492 | 50,801 |
| 207,255 | 181,534 | 2,147,797 | 115,471 |
| 692,189 | 1,510,548 | 8,772,727 | 719,382 |
| 48,357 | 174,019 | 1,752,301 | (3,232) |
| 26,062 | 2,205 | 82,980 | 21,319 |
| (203,504) | (152,873) | (992,330) | (15,166) |
| (129,085) | 23,351 | 842,951 | 2,921 |
| - | 60,000 | 60,000 | - |
| (129,085) | 83,351 | 902,951 | 2,921 |
| 2,707,962 | 267,426 | 33,541,808 | 832,900 |
| \$ 2,578,877 | \$ 350,777 | \$ 34,444,759 | \$ 835,821 |

City of Mount Clemens, Michigan

| | Enterprise Funds | | |
|---|----------------------------|--------------------------|---------------------------|
| | Sewage Disposal | Water Supply System | Sanitary Department |
| Cash Flows from Operating Activities | | | |
| Receipts from customers and other funds | \$ 4,386,776 | \$ 2,799,765 | \$ 686,146 |
| Payments to suppliers and employees | (2,520,929) | (2,000,704) | (743,843) |
| Other receipts | 94,173 | 146,715 | 35,761 |
| Net cash provided by (used in) operating activities | 1,960,020 | 945,776 | (21,936) |
| Cash Flows from Noncapital Financing Activities - | | | |
| Interfund receipts (payments) | (61,792) | (76,389) | 533,218 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Purchase of capital assets | (131,477) | (2,991,068) | - |
| Proceeds from long-term debt | - | 3,619,196 | - |
| Transfers in from other funds | - | - | - |
| Principal and interest paid on long-term debt | (1,433,854) | (946,638) | - |
| Net cash used in capital and related financing activities | (1,565,331) | (318,510) | - |
| Cash Flows from Investing Activities | | | |
| Interest received on investments | 12,501 | 20,614 | 21,598 |
| Sale of investments | - | - | 136,890 |
| Net cash provided by investing activities | 12,501 | 20,614 | 158,488 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 345,398 | 571,491 | 669,770 |
| Cash and Cash Equivalents - Beginning of year | 375,628 | 142,691 | 37,933 |
| Cash and Cash Equivalents - End of year | <u>\$ 721,026</u> | <u>\$ 714,182</u> | <u>\$ 707,703</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and cash equivalents | \$ 588,076 | \$ 228,787 | \$ 707,703 |
| Restricted assets (Note 8) | 132,950 | 485,395 | - |
| Total cash and cash equivalents | <u>\$ 721,026</u> | <u>\$ 714,182</u> | <u>\$ 707,703</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | |
| Operating income (loss) | \$ 625,002 | \$ 923,352 | \$ (18,429) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation and amortization | 1,238,294 | 520,624 | 90 |
| Changes in assets and liabilities: | | | |
| Receivables | 83,400 | (44,890) | 10,911 |
| Prepaid expenses | (20,467) | (15,597) | (3,846) |
| Inventories | - | - | - |
| Accounts payable | (14,396) | (445,613) | 7,710 |
| Accrued and other liabilities | 48,187 | 7,900 | (18,372) |
| Net cash provided by (used in) operating activities | <u>\$ 1,960,020</u> | <u>\$ 945,776</u> | <u>\$ (21,936)</u> |

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, there were no noncash investing, capital, or financing activities.

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2008**

| Enterprise Funds | | | Governmental Activities |
|------------------------------|-------------------|---------------------------|-----------------------------|
| Automobile Parking System | Ice Arena | Total Enterprise Funds | Internal Service Fund |
| \$ 750,820 | \$ 1,682,747 | \$ 10,306,254 | \$ 711,529 |
| (478,643) | (1,335,839) | (7,079,958) | (606,987) |
| 703 | - | 277,352 | 27,094 |
| 272,880 | 346,908 | 3,503,648 | 131,636 |
| 30,000 | - | 425,037 | (610) |
| (4,559) | - | (3,127,104) | (511,885) |
| - | - | 3,619,196 | 276,729 |
| - | 60,000 | 60,000 | - |
| (104,637) | (406,206) | (2,891,335) | (61,651) |
| (109,196) | (346,206) | (2,339,243) | (296,807) |
| 26,064 | 2,205 | 82,982 | 21,319 |
| - | - | 136,890 | - |
| 26,064 | 2,205 | 219,872 | 21,319 |
| 219,748 | 2,907 | 1,809,314 | (144,462) |
| 731,669 | 6,315 | 1,294,236 | 518,660 |
| \$ 951,417 | \$ 9,222 | \$ 3,103,550 | \$ 374,198 |
| \$ 640,897 | \$ 9,222 | \$ 2,174,685 | \$ 374,198 |
| 310,520 | - | 928,865 | - |
| \$ 951,417 | \$ 9,222 | \$ 3,103,550 | \$ 374,198 |
| \$ 48,357 | \$ 174,019 | \$ 1,752,301 | \$ (3,232) |
| 207,255 | 181,534 | 2,147,797 | 115,471 |
| 11,163 | (1,820) | 58,764 | 22,473 |
| (186) | - | (40,096) | 756 |
| - | 12,593 | 12,593 | - |
| 10,764 | (14,808) | (456,343) | (1,105) |
| (4,473) | (4,610) | 28,632 | (2,727) |
| \$ 272,880 | \$ 346,908 | \$ 3,503,648 | \$ 131,636 |

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

| | Pension and Other Employee Benefits Trust Fund - Employees' Retirement System | Agency Funds |
|--|---|-----------------------------|
| Assets | | |
| Cash and cash equivalents (Note 3) | \$ 904,485 | \$ 120,253 |
| Investments (Note 3): | | |
| Common stock | 26,736,554 | - |
| U.S. government agency securities | 10,555,772 | - |
| U.S. Treasury notes | 863,941 | - |
| Corporate bonds | 16,088,488 | - |
| Mutual funds | 7,773,847 | - |
| Repurchase agreements | 221,612 | - |
| Receivables - Accrued interest | 247,913 | - |
| Due from other governmental units | - | 104,063 |
| | <u>63,392,612</u> | <u>104,063</u> |
| Total assets | 63,392,612 | <u><u>\$ 224,316</u></u> |
| Liabilities | | |
| Accounts payable | 15,007 | \$ - |
| Amounts due broker under securities lending agreement | 6,360,975 | - |
| Due to other governmental units | - | 35,748 |
| Cash bonds and deposits | - | 188,568 |
| | <u>6,375,982</u> | <u>188,568</u> |
| Total liabilities | <u>6,375,982</u> | <u><u>\$ 224,316</u></u> |
| Net Assets - Held in trust for pension and other employee benefits | | <u><u>\$ 57,016,630</u></u> |

City of Mount Clemens, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Employees' Retirement System Year Ended June 30, 2008

Additions

| | |
|---|------------------|
| Investment income: | |
| Interest and dividends | \$ 2,505,885 |
| Net decrease in fair value of investments | (4,603,178) |
| Less investment expenses | <u>(317,270)</u> |
| Net investment income | (2,414,563) |
| Contributions: | |
| Employer | 217,708 |
| Employer - Property taxes | 396,791 |
| Employee | <u>263,816</u> |
| Total contributions | 878,315 |
| Securities lending income: | |
| Interest and fees | 234,318 |
| Less borrower rebates and fees | <u>(210,089)</u> |
| Net securities lending income | <u>24,229</u> |
| Total additions | (1,512,019) |

Deductions

| | |
|--------------------------|------------------|
| Benefit payments | 3,921,574 |
| Refunds of contributions | <u>60,690</u> |
| Total deductions | <u>3,982,264</u> |

Net Decrease (5,494,283)

Net Assets Held in Trust for Pension and Other Employee Benefits

| | |
|-------------------|-----------------------------|
| Beginning of year | <u>62,510,913</u> |
| End of year | <u><u>\$ 57,016,630</u></u> |

City of Mount Clemens, Michigan

Component Units Statement of Net Assets June 30, 2008

| | Downtown Development Authority |
|------------------------------------|--------------------------------------|
| Assets | |
| Cash and cash equivalents (Note 3) | \$ 417,445 |
| Assets held for resale | 151,892 |
| Taxes receivable | 5,610 |
| Prepaid expenses | <u>2,143</u> |
| Total assets | 577,090 |
| Liabilities | |
| Accounts payable | 60,628 |
| Accrued and other liabilities | <u>231</u> |
| Total liabilities | <u>60,859</u> |
| Net Assets - Unrestricted | <u>\$ 516,231</u> |

City of Mount Clemens, Michigan

Component Units Statement of Activities Year Ended June 30, 2008

| | Expenses | Charges for Services | Operating Grants/ Contributions | Downtown Development Authority |
|--|-------------------|-------------------------|---------------------------------------|--------------------------------------|
| Downtown Development Authority - Public works | <u>\$ 650,651</u> | <u>\$ 111,178</u> | <u>\$ -</u> | \$ (539,473) |
| General revenues: | | | | |
| Property taxes | | | | 415,599 |
| Interest | | | | <u>6,831</u> |
| Total general revenues | | | | <u>422,430</u> |
| Change in Net Assets | | | | (117,043) |
| Net Assets - Beginning of year | | | | <u>633,274</u> |
| Net Assets - End of year | | | | <u>\$ 516,231</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Mount Clemens, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The following is a summary of the significant accounting policies used by the City of Mount Clemens, Michigan:

Reporting Entity

The City of Mount Clemens, Michigan is governed by an elected seven-member commission. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended Component Unit - The Mount Clemens Building Authority is governed by a board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

The Brownfield Redevelopment Finance Authority (BRFA) was created to facilitate the implementation of plans for the identification, treatment, and revitalization of environmentally distressed areas with the City designated as Brownfield Redevelopment Zones. The BRFA's board of directors, consisting of nine members, is selected by the City Commission. In addition, the BRFA's budget is subject to approval by the City Commission. The BRFA had no financial activity during the year or at year end.

Financial statements for the DDA and BRFA can be obtained from the administrative offices at One Crocker Blvd., Mount Clemens, MI 48043.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

The City has excluded the Mount Clemens Housing Commission from this report. Even though the City appoints the Housing Commission's directors, it does not have the ability to impose its will.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major Enterprise Funds:

Sewage Disposal System Fund - The Sewage Disposal System Fund accounts for the activities of the sewage collection and disposal system.

Water Supply System Fund - The Water Supply System Fund accounts for the activities of the water distribution system.

Sanitary Department Fund - The Sanitary Department Fund accounts for the City's garbage and rubbish disposal activities.

Automobile Parking System Fund - The Automobile Parking System Fund accounts for the City's metered on-street and parking lot activities.

Ice Arena Fund - The Ice Arena Fund accounts for the City's ice arena operations.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefits Trust Fund - The Employees' Retirement System Pension accounts for the accumulation of resources for pension benefit payments to substantially all City employees.

Agency Funds - Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is susceptible to accrual - that is, when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, state-shared revenue, and interest are all considered to be susceptible to accrual. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absence expenditures are recorded only when payment is due.

Proprietary funds distinguish between operating revenue and expenses and nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued on or before November 30, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 to its business-type activities and Enterprise Funds.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds within the governmental and business-type activities columns are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. The City's 2007 ad valorem tax is levied and collectible on July 1, 2007, and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled approximately \$447.6 million, on which ad valorem taxes levied consisted of 13.7097 mills for operating purposes, 0.9137 mills for Police and Fire Pension, and 0.9137 for Dial-A-Ride services. Net of tax capture by the Downtown Development Authority, the tax levies resulted in approximately \$6.0 million for operating purposes, \$399,000 for Police and Fire Pension, and \$401,000 for Dial-A-Ride services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - Outstanding bonds in the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water supply and sewage disposal systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

| | |
|------------------------------|----------------|
| Roads and bridges | 25 to 40 years |
| Sidewalks | 20 years |
| Buildings and improvements | 40 to 50 years |
| Land improvements | 10 to 20 years |
| Machinery and equipment | 5 to 15 years |
| Plant facilities | 50 to 66 years |
| Production facilities | 20 to 66 years |
| Transmission facilities | 50 years |
| Tunnels and retention basins | 50 years |

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as they come due for payment, generally when there are employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts and the deferred amount on refundings are deferred and amortized over the life of the bonds. Bonds payable are reported net of these amounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue and Debt Service Funds, except for the fringe benefit reimbursements which are budgeted as revenues. All annual appropriations lapse at fiscal year end.

Prior to the first regular City Commission meeting in April, the city manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to the third Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The city manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Fund Deficits - The City has accumulated a deficit of unrestricted net assets in the Water Supply System and the Ice Arena individual funds. Plans to eliminate the deficit will be filed with the State of Michigan Local Audit Finance Division.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Mount Clemens incurred expenditures that were in excess of amounts budgeted, as follows:

| General Fund | Final Budget | Actual | Variance |
|---|--------------|-----------|-------------|
| Other Financing Uses - Transfers out | \$ - | \$ 80,000 | \$ (80,000) |

State Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2008 is as follows:

| | |
|--------------------------------------|----------------------------|
| Cumulative shortfall - July 1, 2007 | \$ (931,594) |
| Building permit revenue | 303,033 |
| Related expenditures: | |
| Direct costs | \$ 281,490 |
| Estimated indirect costs | <u>28,149</u> |
| Total construction code expenses | <u>309,639</u> |
| Excess of expenditures over revenue | <u>(6,606)</u> |
| Cumulative shortfall - June 30, 2008 | <u><u>\$ (938,200)</u></u> |

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The City does not have a separate investment policy for its pension funds; however, the City does follow the state pension act limits.

As permitted by state statutes, and under the provisions of a Securities Lending Authorization Agreement, the Employees' Retirement System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension Trust Fund System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2008, only United States currency was received as collateral.

The Employees' Retirement System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

The Employees' Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2008 was 94 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2008, the Employees' Retirement System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the Employees' Retirement System as of June 30, 2008 were \$6,360,975, and \$6,190,170, respectively.

The City's investment policy adopted by the commission limits investments to those listed under the State's statutory authority as noted above. At June 30, 2008, the City's deposits and investments are in accordance with statutory authority.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk - City-wide Bank Deposits and Investments - Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had \$7.75 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Pension and Other Employee Benefit Trust Funds - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's pension trust fund does not have an investment policy for custodial credit risk.

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty or by its trust department or agent but not in the City's name:

| Investment Type | Fair Value of City-wide Investments | Fair Value of Pension Trust Funds | How Held |
|--|---|---|--------------|
| Negotiable certificate of deposits | \$ 254,929 | \$ - | Counterparty |
| Collateralized mortgage obligations | - | 4,885,608 | Counterparty |
| United States government agency securities | - | 10,555,772 | Counterparty |
| United States government treasury bonds | - | 863,941 | Counterparty |
| Corporate asset backed | - | 2,732,311 | Counterparty |
| Corporate bonds | - | 8,470,567 | Counterparty |
| Equity securities | - | 26,736,554 | Counterparty |
| Total uninsured and unregistered | <u>\$ 254,929</u> | <u>\$ 54,244,753</u> | |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment Type | Fair Value of City-wide Investments | Fair Value of Pension Trust Funds | Weighted Average Maturity |
|--|---|---|------------------------------|
| Negotiable certificate of deposits | \$ 254,929 | \$ - | 15.00 years |
| Collateralized mortgage obligations | - | 4,885,608 | 31.75 years * |
| United States government agency securities | - | 10,555,772 | 27.29 years * |
| United States government treasury bonds | - | 863,941 | 25.77 years * |
| Corporate asset backed | - | 2,732,312 | 9.95 years * |
| Corporate bonds | - | 8,470,567 | 10.38 years * |
| Total uninsured and unregistered | <u>\$ 254,929</u> | <u>\$ 27,508,200</u> | |

* Governmental agency securities and all bonds are subject to monthly or quarterly principal and interest payments. The weighted average maturity is based on the expected date of the last principal and interest payment. These investments are callable and have interest rates ranging from 3.00 percent to 9.5 percent.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

| Investment Type | Fair Value | Rating | Rating Organization |
|---|--------------|-------------|----------------------|
| United States government agency securities: | | | |
| Federal Home Loan Mortgage Corporation | \$ 3,943,676 | Not rated | Not rated |
| Federal National Mortgage Association | 6,507,646 | Not rated | Not rated |
| Government National Mortgage Association | 104,451 | Not rated | Not rated |
| Corporate bonds | 8,470,567 | BBB- to AAA | Standards and Poor's |
| Collateralized mortgage obligations | 4,885,608 | NR of AAA | Standards and Poor's |
| U.S. government bonds | 863,941 | AAA | Standards and Poor's |
| Corporate asset backed | 2,732,312 | AAA - BBB | Standards and Poor's |

Concentration of Credit Risk - The City places limits on deposits maintained at any given financial institution to no more than 50 percent of the City's total deposits.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The City and City's Pension Fund do not limit investments in any one issuer. At June 30, 2008, the City's Pension Fund maintained investments in the Federal National Mortgage Association totaling approximately 10.3 percent of the Pension Fund's total investments, and investments in the Federal Home Loan Mortgage Corporation totaling approximately 6.25 percent of the Pension Fund's total investments. The City-wide funds maintained investments in the following banking institution at June 30, 2008:

| Institution | Fair Value |
|------------------------|------------|
| Federal Home Loan Bank | \$ 254,929 |

Note 4 - Receivables and Deferred Revenue

The following is the detail of the governmental activities due from other governmental units at June 30, 2008:

| | General Fund | Other Nonmajor Funds | Total |
|-------------------|-------------------|----------------------------|---------------------|
| State of Michigan | \$ 657,585 | \$ 159,196 | \$ 816,781 |
| Other | 167,245 | 20,704 | 187,949 |
| Total | <u>\$ 824,830</u> | <u>\$ 179,900</u> | <u>\$ 1,004,730</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Receivables and Deferred Revenue (Continued)

At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|-------------------|------------------|
| Special assessments | \$ 8,211 | \$ - |
| Personal property taxes levied but not available to pay for current expenditures | 62,855 | - |
| Other grants/revenues earned but not available to pay for current expenditures | 77,395 | - |
| Grant payments received prior to meeting all eligibility requirements | - | 56,043 |
| Total | <u>\$ 148,461</u> | <u>\$ 56,043</u> |

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows for the year ended June 30, 2008:

| | Balance July 1, 2007 | Additions | Disposals and Adjustments | Balance June 30, 2008 |
|---------------------------------------|-------------------------|---------------------|------------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,791,978 | \$ - | \$ - | \$ 2,791,978 |
| Construction in progress | 5,120,472 | - | 5,120,472 | - |
| Subtotal | 7,912,450 | - | 5,120,472 | 2,791,978 |
| Capital assets being depreciated: | | | | |
| Roads and bridges | 9,668,298 | 90,543 | - | 9,758,841 |
| Sidewalks | 1,758,592 | - | - | 1,758,592 |
| Buildings and improvements | 2,876,224 | 5,018,889 | - | 7,895,113 |
| Land improvements | 2,879,514 | 36,677 | - | 2,916,191 |
| Machinery and equipment | 4,825,457 | 691,613 | 3,200 | 5,513,870 |
| Subtotal | 22,008,085 | 5,837,722 | 3,200 | 27,842,607 |
| Accumulated depreciation: | | | | |
| Roads and bridges | 4,303,465 | 365,806 | - | 4,669,271 |
| Sidewalks | 1,222,301 | 65,025 | - | 1,287,326 |
| Buildings and improvements | 1,983,412 | 157,642 | - | 2,141,054 |
| Land improvements | 2,242,271 | 100,609 | - | 2,342,880 |
| Machinery and equipment | 3,804,284 | 281,515 | 747 | 4,085,052 |
| Subtotal | 13,555,733 | 970,597 | 747 | 14,525,583 |
| Net capital assets being depreciated | 8,452,352 | 4,867,125 | 2,453 | 13,317,024 |
| Net capital assets | <u>\$ 16,364,802</u> | <u>\$ 4,867,125</u> | <u>\$ 5,122,925</u> | <u>\$ 16,109,002</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

| Business-type Activities | Balance July 1, 2007 | Additions | Disposals and Adjustments | Balance June 30, 2008 |
|---------------------------------------|-------------------------|--------------|------------------------------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,706,362 | \$ - | \$ - | \$ 3,706,362 |
| Construction in progress | 1,347,424 | 2,628,562 | 3,973,386 | 2,600 |
| Subtotal | 5,053,786 | 2,628,562 | 3,973,386 | 3,708,962 |
| Capital assets being depreciated: | | | | |
| Plant facilities | 23,760,513 | - | - | 23,760,513 |
| Production facilities | 6,380,759 | - | - | 6,380,759 |
| Transmission facilities | 14,554,277 | - | - | 14,554,277 |
| Tunnels and retention basins | 37,943,645 | 20,800 | - | 37,964,445 |
| Machinery and equipment | 8,544,712 | 4,143,132 | - | 12,687,844 |
| Land improvements | 5,367,029 | 4,558 | - | 5,371,587 |
| Subtotal | 96,550,935 | 4,168,490 | - | 100,719,425 |
| Accumulated depreciation: | | | | |
| Plant facilities | 8,331,839 | 565,306 | - | 8,897,145 |
| Production facilities | 3,731,739 | 111,638 | - | 3,843,377 |
| Transmission facilities | 4,601,665 | 217,041 | - | 4,818,706 |
| Tunnels and retention basins | 10,846,347 | 702,671 | - | 11,549,018 |
| Machinery and equipment | 7,238,292 | 346,023 | - | 7,584,315 |
| Land improvements | 2,851,495 | 205,117 | - | 3,056,612 |
| Subtotal | 37,601,377 | 2,147,796 | - | 39,749,173 |
| Net capital assets being depreciated | 58,949,558 | 2,020,694 | - | 60,970,252 |
| Net capital assets | \$ 64,003,344 | \$ 4,649,256 | \$ 3,973,386 | \$ 64,679,214 |

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|-------------------------------|------------|
| General government | \$ 323,642 |
| Public safety | 113,168 |
| Public works | 470,761 |
| Recreation and culture | 63,026 |
| Total governmental activities | \$ 970,597 |

Business-type activities:

| | |
|--------------------------------|--------------|
| Sewage disposal | \$ 1,238,294 |
| Water supply system | 520,624 |
| Sanitary department | 90 |
| Automobile parking system | 207,255 |
| Ice arena | 181,534 |
| Total business-type activities | \$ 2,147,797 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows at June 30, 2008:

| Receivable Fund | Payable Fund | Amount |
|-----------------------|--------------------------------|---------------------|
| General Fund | Automobile Parking System Fund | \$ 30,000 |
| | Sewage Disposal System Fund | 50,000 |
| | Water Supply System Fund | 140,000 |
| | Ice Arena Fund | 534,846 |
| | Total General Fund | 754,846 |
| Sewage Disposal Fund | Water Supply System Fund | 716,387 |
| | General Fund | 1,889 |
| | Total Sewage Disposal Fund | 718,276 |
| Water Supply System | General Fund | 116,389 |
| Sanitation Fund | General Fund | 1,628 |
| Internal Service Fund | General Fund | 610 |
| | Total | <u>\$ 1,591,749</u> |

Interfund balances result primarily from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The details of the interfund transfers for the year ended June 30, 2008 are as follows:

| Funds Transferred From | Funds Transferred To | Amount |
|--------------------------|--------------------------|-------------------|
| General Fund | Local Streets Fund | \$ 20,000 |
| | Ice Arena Fund | 60,000 |
| | Total General Fund | 80,000 |
| Other governmental funds | Other governmental funds | 197,431 (1) |
| | Total | <u>\$ 277,431</u> |

(1) Transfer of funds for debt service (\$27,431) and transfer of Act 51 revenue-sharing payments from Major Streets Fund to Local Streets Fund as permitted by State law

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|-------------------|---------------------|------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds - 1992 Michigan | | | | | |
| Transportation Bonds | \$ 50,000 | \$ - | \$ 25,000 | \$ 25,000 | \$ 25,000 |
| Installment Purchase Agreement - Fire pumper | 143,190 | - | 31,825 | 111,365 | 31,371 |
| Installment Purchase Agreement - Fire pumper | - | 276,729 | - | 276,729 | 34,410 |
| Special Assessment Obligations: | | | | | |
| 1999 Road Improvement Bonds | 75,000 | - | 75,000 | - | - |
| 1999 B Road Improvement Bonds | 100,000 | - | - | 100,000 | 100,000 |
| General Obligation Bonds - Series 2006 | | | | | |
| 41B District Court Building (Note 13) | 3,497,000 | - | 184,500 | 3,312,500 | 52,000 |
| Total accrued sick and vacation liability | 664,603 | 162,286 | 14,656 | 812,233 | 300,000 |
| Total governmental activities | <u>\$ 4,529,793</u> | <u>\$ 439,015</u> | <u>\$ 330,981</u> | <u>\$ 4,637,827</u> | <u>\$ 542,781</u> |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|--------------|--------------|----------------|------------------------|
| Business-type Activities | | | | | |
| General Obligation Bonds: | | | | | |
| State Combined Sewer Overflow Revolving Fund Debt: | | | | | |
| 1998A Sewage Disposal System Bonds | \$ 3,715,000 | \$ - | \$ 250,000 | \$ 3,465,000 | 250,000 |
| 1998A-2 Sewage Disposal System Bonds | 3,075,671 | - | 209,156 | 2,866,515 | 214,025 |
| 1999A Sewage Disposal System Bonds | 5,795,000 | - | 385,000 | 5,410,000 | 390,000 |
| 1998 B Sewage Disposal System Bonds | 1,350,000 | - | 75,000 | 1,275,000 | 100,000 |
| 1999 B Sewage Disposal System Bonds | 750,000 | - | 50,000 | 700,000 | 50,000 |
| 2001 Ice Arena Building Authority Refunding Bonds - Net of unamortized deferred charges | 2,905,002 | 16,667 | 270,000 | 2,651,669 | 315,000 |
| 2003 Parking Improvement Bonds | 4,800,000 | - | - | 4,800,000 | 150,000 |
| Revenue Obligations: | | | | | |
| 1992 Sanitary Sewage Disposal System Bonds - Net of unamortized discount | 148,671 | 666 | 75,000 | 74,337 | 75,000 |
| 1998B Water Supply System Revenue Bonds | 650,000 | - | 25,000 | 625,000 | 25,000 |
| State Drinking Water Revolving Fund Debt: | | | | | |
| 1998A Water Supply System Revenue Bonds | 600,000 | - | 40,000 | 560,000 | 40,000 |
| 1998A-2 Water Supply System Revenue Bonds | 1,399,000 | - | 94,000 | 1,305,000 | 94,000 |
| 1999A Water Supply System Revenue Bonds | 3,410,000 | - | 225,000 | 3,185,000 | 230,000 |
| 2000A Water Supply System Revenue Bonds | 1,470,000 | - | 90,000 | 1,380,000 | 90,000 |
| 2000A-2 Water Supply System Revenue Bonds | 1,650,000 | - | 90,000 | 1,560,000 | 95,000 |
| 2007A Water Supply System Revenue Bonds | 270,179 | 3,387,037 | 160,000 | 3,497,216 | 160,000 |
| 2007B Water Supply System Revenue Bonds | - | 232,159 | - | 232,159 | 15,000 |
| Long-term portion of accrued sick and vacation liability | 201,950 | - | 9,583 | 192,367 | - |
| Total business-type activities | \$ 32,190,473 | \$ 3,636,529 | \$ 2,047,739 | \$ 33,779,263 | \$ 2,293,025 |

Annual debt service requirements to maturity (excluding amortization of discounts and deferred charges) for the above bond and note obligations are as follows:

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|--------------|--------------|--------------------------|--------------|---------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2009 | \$ 242,781 | \$ 165,218 | \$ 407,999 | \$ 2,293,025 | \$ 1,079,559 | \$ 3,372,584 |
| 2010 | 135,147 | 155,372 | 290,519 | 2,312,886 | 942,135 | 3,255,021 |
| 2011 | 138,183 | 149,514 | 287,697 | 2,377,250 | 871,503 | 3,248,753 |
| 2012 | 105,173 | 146,848 | 252,021 | 2,492,114 | 797,922 | 3,290,036 |
| 2013 | 116,183 | 138,990 | 255,173 | 2,581,478 | 720,165 | 3,301,643 |
| 2014-2018 | 563,127 | 620,212 | 1,183,339 | 13,342,580 | 2,373,155 | 15,715,735 |
| 2019-2023 | 750,000 | 482,519 | 1,232,519 | 7,197,184 | 664,120 | 7,861,304 |
| 2024-2031 | 1,775,000 | 339,425 | 2,114,425 | 1,124,373 | 62,836 | 1,187,209 |
| Total | \$ 3,825,594 | \$ 2,198,098 | \$ 6,023,692 | \$ 33,720,890 | \$ 7,511,395 | \$ 41,232,285 |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

In connection with the ongoing Water Fund improvements described in Note 5, the City has issued bonds through the Michigan Drinking Water Revolving Loan Fund Program (DWRF). The annual debt service requirements to maturity disclosed above reflect the advances received through June 30, 2008. The total approved amount and advances to date are as follows.

| | Total Approved Amount | June 30, 2008 Advances |
|--------|--------------------------|---------------------------|
| 2007 A | \$ 3,900,000 | \$ 3,497,216 |
| 2008 B | 320,000 | 232,159 |

Revenue Bonds - The City has pledged substantially all revenue of the Sewage Disposal System Fund and Water Supply System Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the repair of water and sewer lines. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$41,232,274. During the current year, net revenues of the sewage disposal system and water supply system totaled \$3,341,053, compared to annual debt requirements of \$1,095,226.

Advance Refundings - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2008, \$2,750,000 of bonds outstanding are considered defeased.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Sewage Disposal Fund and Water Supply System Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2008:

| | Sewage Disposal Fund | Water Supply System Fund |
|--|-------------------------|-----------------------------|
| Revenue bond requirements: | | |
| Bond reserve | \$ 75,500 | \$ 83,500 |
| Debt service: | | |
| Principal | 56,250 | 321,750 |
| Interest | <u>1,200</u> | <u>80,145</u> |
| Total requirements | 132,950 | 485,395 |
| Shortfall at June 30, 2008 | <u>-</u> | <u>-</u> |
| Restricted assets - June 30, 2008 | 132,950 | 485,395 |
| Current liabilities payable from restricted assets | <u>(57,450)</u> | <u>(401,895)</u> |
| Net assets restricted for revenue bond ordinances | <u>\$ 75,500</u> | <u>\$ 83,500</u> |

Restricted assets in the Auto Parking Fund at June 30, 2008 consist of unspent bond proceeds.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and general liability claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of Mount Clemens Employees' Retirement System is the administrator of a single-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 177 retirees and beneficiaries currently receiving benefits, 23 terminated employees entitled to benefits but not yet receiving them, and 86 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution of 6.55 percent from fire employees, 1 percent from dispatchers, court employees, and nonbargaining clerical employees, and 5.3 percent from other general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2008, the City's annual pension cost of \$529,250 for the plan was equal to the required and actual contribution.

| | Fiscal Year June 30 | | |
|-------------------------------|---------------------|------------|------------|
| | 2008 | 2007 | 2006 |
| Annual pension costs (APC) | \$ 529,250 | \$ 834,776 | \$ 862,090 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 97.9 percent funded. The actuarial accrued liability for benefits was \$54.57 million, and the actuarial value of assets was \$53.43 million, resulting in an unfunded actuarial accrued liability of \$1.14 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.46 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 25.6 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2007, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.25 percent investment rate of return and (b) projected salary increases of 5.0 to 28.6 percent per year, with no cost of living adjustments. Both (a) and (b) include an inflation component of 5 percent. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a 17-year closed basis for general employees, a 15-year closed basis for police and fire employees, and a 12-year open basis for all other employees.

Reserves - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

| | |
|--------------------------------------|---------------|
| Reserve for employees' contributions | \$ 26,051,286 |
| Reserve for retired benefit payments | 36,459,627 |

Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 161 retirees are eligible. The City includes pre-Medicare retirees in its insured healthcare plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,538,000.

City of Mount Clemens, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Designated Fund Balance

Fund balance in the General Fund at June 30, 2008 has been designated for the following purposes:

| | |
|-------------------------------|---------------------|
| Environmental liability | \$ 500,000 |
| Ice arena debt | 400,000 |
| Capital outlay | 100,000 |
| Sick and vacation liabilities | <u>600,000</u> |
| Total | <u>\$ 1,600,000</u> |

Note 13 - Joint Ventures

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Park, Grosse Pointe Farms, Grosse Pointe, Grosse Pointe Woods, Harper Woods, the Village of Grosse Pointe Shores, and the Township of Clinton. The City Commission appoints one member to the Authority's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

The City's interest in the net assets of the Authority totaled \$217,637 at June 30, 2008 and is reported as part of the governmental activities in the statement of net assets. The City is unaware of any circumstances, including potential environmental remediation, which would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Note 13 - Joint Venture (Continued)

The City is also a member of the 41B District Court Common Fund (the "Court"), a joint venture which provides judiciary services to the City of Mount Clemens and the Charter Townships of Clinton and Harrison. The City Commission appoints one member to the Court's management council, which has the responsibility of reviewing financial matters of the Court, including annual budget requests. The expenses of the Court are divided among three communities in proportion to the volume of cases attributable to each community. Fines and fees collected from within the communities are distributable to the communities net of their allocation of the Court's expenditures. The City has also recorded its interest in the capital assets and related bonded debt obligations in the governmental activities statements based on the same allocation percentages as used to allocate revenue and expenses among participating communities.

Note 14 - Environmental Liability

The City has recorded a liability of \$375,000 related to remediation activities on a former municipal landfill, including the installation of an interception system and one year's monitoring and maintenance. Elevated levels of methane gas were detected at this site and the City has worked with the Michigan Department of Environmental Quality to determine the appropriate interim responses to vent and monitor the methane. Continued maintenance and monitoring will potentially be required, which the City has estimated could range from \$26,000 to \$110,000 annually. An estimate of the total liability cannot reasonably be determined due to the significant uncertainty as to the duration and extent of future monitoring requirements; therefore, no liability has been recorded as of June 30, 2008 for these amounts.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The new pronouncement provides guidance for local units of government in recognizing pollution remediation expenses and obligations to address current or potential detrimental effects of existing pollution. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

Required Supplemental Information

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|--------------------|-------------------|-------------------|------------------------------------|
| Revenues | | | | |
| Current taxes | \$ 5,937,550 | \$ 5,989,165 | \$ 5,949,655 | \$ (39,510) |
| Penalties and interest on delinquent taxes | 40,000 | 46,230 | 46,234 | 4 |
| Business licenses and permits | 30,000 | 30,000 | 31,303 | 1,303 |
| Nonbusiness licenses and permits | 274,000 | 290,500 | 321,485 | 30,985 |
| State-shared taxes | 2,072,000 | 2,073,500 | 2,070,290 | (3,210) |
| Grants | 15,000 | 50,000 | 70,000 | 20,000 |
| Charges, services, and fees | 378,500 | 395,000 | 391,126 | (3,874) |
| Charges for services rendered | 300,000 | 300,000 | 300,000 | - |
| Charges for services and sales | 16,000 | 20,500 | 21,154 | 654 |
| Use and admission fees | 20,000 | 30,000 | 32,454 | 2,454 |
| Parking fines and fees | 221,000 | 262,000 | 227,204 | (34,796) |
| Interest earnings | 50,000 | 70,000 | 119,578 | 49,578 |
| Rents and royalties | 22,750 | 21,840 | 21,382 | (458) |
| Cable TV | 170,000 | 175,000 | 185,295 | 10,295 |
| Fringe benefit reimbursements | 22,870 | 219,975 | 238,596 | 18,621 |
| Refunds | 275,000 | 250,000 | 269,600 | 19,600 |
| Miscellaneous | 184,500 | 179,500 | 180,285 | 785 |
| Federal grant revenue | 135,000 | 166,500 | 151,605 | (14,895) |
| Total revenues | 10,164,170 | 10,569,710 | 10,627,246 | 57,536 |

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| Expenditures | | | | |
| General government: | | | | |
| City Commission | \$ 6,900 | \$ 6,900 | \$ 6,900 | \$ - |
| City administrator | 180,450 | 209,056 | 202,325 | 6,731 |
| Elections | 70,500 | 41,500 | 36,934 | 4,566 |
| Legal services | 180,000 | 155,000 | 146,738 | 8,262 |
| Auditing services | 57,000 | 60,000 | 60,000 | - |
| Personnel | 127,174 | 128,054 | 123,675 | 4,379 |
| Community promotions | 25,000 | 21,871 | 26,530 | (4,659) |
| Telephone | 62,000 | 62,000 | 45,074 | 16,926 |
| Assessor | 111,706 | 111,216 | 109,748 | 1,468 |
| Controller | 79,057 | 83,182 | 80,994 | 2,188 |
| Accounting | 84,075 | 71,990 | 71,158 | 832 |
| Treasurer | 116,930 | 119,330 | 122,094 | (2,764) |
| City clerk | 175,022 | 166,922 | 155,298 | 11,624 |
| Purchasing | 151,035 | 151,040 | 141,794 | 9,246 |
| Planning services | 359,704 | 319,095 | 319,649 | (554) |
| Maintenance of municipal buildings | 171,060 | 161,160 | 141,617 | 19,543 |
| Data processing | 133,000 | 147,622 | 140,616 | 7,006 |
| Cable television | 100,000 | 100,000 | 100,000 | - |
| Property tax refunds | 8,000 | 19,000 | 24,575 | (5,575) |
| Total general government | 2,198,613 | 2,134,938 | 2,055,719 | 79,219 |
| Public safety: | | | | |
| Police | 2,318,795 | 2,318,795 | 2,323,890 | (5,095) |
| Dispatch center | 287,968 | 287,968 | 287,968 | - |
| Fire | 1,498,820 | 1,491,039 | 1,488,261 | 2,778 |
| Volunteer firemen | 63,100 | 59,097 | 46,807 | 12,290 |
| Inspection | 324,111 | 291,776 | 281,490 | 10,286 |
| Dog warden | 28,553 | 25,975 | 23,749 | 2,226 |
| Total public safety | 4,521,347 | 4,474,650 | 4,452,165 | 22,485 |
| Public works: | | | | |
| Engineering | 40,600 | 55,500 | 48,820 | 6,680 |
| Supervision and overhead | 74,105 | 78,447 | 77,553 | 894 |
| Alleys | 17,723 | 17,723 | 10,647 | 7,076 |
| Street lighting | 275,000 | 275,000 | 270,001 | 4,999 |
| Sewage services | 3,000 | 2,000 | 1,519 | 481 |
| Community Development Block Grant | 135,000 | 256,500 | 230,755 | 25,745 |
| Miscellaneous | 108,005 | 118,631 | 106,015 | 12,616 |
| Total public works | 653,433 | 803,801 | 745,310 | 58,491 |

City of Mount Clemens, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|----------------------------|----------------------------|----------------------------|------------------------------------|
| Expenditures (Continued) | | | | |
| Recreation: | | | | |
| Parks and stadium | \$ 210,889 | \$ 225,190 | \$ 224,024 | \$ 1,166 |
| Programs | 32,500 | 38,250 | 36,899 | 1,351 |
| Art center | 5,750 | 1,310 | 779 | 531 |
| Total recreation | 249,139 | 264,750 | 261,702 | 3,048 |
| Other functions: | | | | |
| Insurance and pension | 2,258,330 | 1,995,259 | 1,891,445 | 103,814 |
| Land acquisitions and building improvements | 62,000 | 104,200 | 107,955 | (3,755) |
| Total other functions | 2,320,330 | 2,099,459 | 1,999,400 | 100,059 |
| Total expenditures | 9,942,862 | 9,777,598 | 9,514,296 | 263,302 |
| Excess of Revenue Over Expenditures | 221,308 | 792,112 | 1,112,950 | 320,838 |
| Other Financing Uses - Transfers out | - | - | 80,000 | (80,000) |
| Change in Fund Balances | 221,308 | 792,112 | 1,032,950 | 400,838 |
| Fund Balance - Beginning of year | 2,273,905 | 2,680,163 | 2,930,592 | 492,429 |
| Fund Balance - End of year | <u>\$ 2,495,213</u> | <u>\$ 3,472,275</u> | <u>\$ 3,963,542</u> | <u>\$ 893,267</u> |

City of Mount Clemens, Michigan

Required Supplemental Information Retirement System Schedules of Funding Progress and Employer Contributions June 30, 2008

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|---|
| 06/30/02 | \$ 54,600,760 | \$ 52,194,132 | \$ (2,406,628) | 104.6 | \$ 7,655,789 | (31.4) |
| 06/30/03 | 52,848,178 | 53,369,616 | 521,438 | 99.0 | 7,387,300 | 7.1 |
| 06/30/04 | 51,459,139 | 56,402,873 | 4,943,734 | 91.2 | 7,365,146 | 67.1 |
| 06/30/05 | 52,189,133 | 55,946,174 | 3,757,041 | 93.3 | 5,245,808 | 71.6 |
| 06/30/06 | 52,503,861 | 55,977,310 | 3,473,449 | 93.8 | 5,257,637 | 66.1 |
| 06/30/07 | 53,434,465 | 54,573,569 | 1,139,104 | 97.9 | 4,455,135 | 25.6 |

The schedule of employer contributions is as follows:

| Years Ended June 30 | Contribution Rates as a Percentage of Valuation Payroll | | Annual Required Contribution Based on Actual Payroll | Percentage Contributed |
|------------------------|--|---------------------------------|---|---------------------------|
| | General Employees | Police and Fire Employees ** | | |
| 2003 | 1.77 | \$ 16.27 | \$ 631,831 | 100 |
| 2004 | 6.38 | 19.30 | 943,334 | 100 |
| 2005 | 10.89 | 25.26 | 1,295,985 | 100 |
| 2006 | 11.77 | 34.24 | 862,090 | 100 |
| 2007 | 10.07 | 40.58 | 834,776 | 100 |
| 2008 | 5.86 | 32.36 | 529,250 | 100 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

| | |
|-------------------------------|---|
| Actuarial cost method | Individual entry age normal cost |
| Amortization method | Level percent of payroll, open and closed periods |
| Remaining amortization period | General employees - Amendments - 17 years closed All others - 12 years open Police and fire employees - 15 years closed |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return* | 7.5% |
| Projected salary increases* | 5.0%-28.6% |
| *Includes inflation at | 5% |
| Cost of living adjustments | None |

** Effective for the year ended June 30, 2006, the contribution obligation for both police and firefighter members was expressed as a percentage of firefighter payroll.

Other Supplemental Information

City of Mount Clemens, Michigan

| Special Revenue Funds | | | | | |
|--|---------------------------------|------------------|-------------------|-----------------------|--------------------------------|
| | Major Streets and Trunklines | Local Streets | Dial-A-Ride | Public Improvement | Total Special Revenue Funds |
| Assets | | | | | |
| Cash and cash equivalents | \$ 824,601 | \$ - | \$ 488,266 | \$ 34,957 | \$ 1,347,824 |
| Receivables: | | | | | |
| Special assessments | - | - | - | - | - |
| Other governmental units | 116,173 | 43,023 | 20,704 | - | 179,900 |
| Accrued interest and other | 5,710 | - | 6,093 | 4,155 | 15,958 |
| Prepaid expenses | - | - | 6,938 | - | 6,938 |
| Total assets | <u>\$ 946,484</u> | <u>\$ 43,023</u> | <u>\$ 522,001</u> | <u>\$ 39,112</u> | <u>\$ 1,550,620</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 73,730 | \$ 18,854 | \$ 2,158 | \$ 3,156 | \$ 97,898 |
| Accrued and other liabilities | 2,212 | 1,883 | 7,124 | - | 11,219 |
| Deferred revenue | 56,043 | - | - | - | 56,043 |
| Total liabilities | 131,985 | 20,737 | 9,282 | 3,156 | 165,160 |
| Fund Balances | | | | | |
| Reserved: | | | | | |
| Debt service | - | - | - | - | - |
| Prepaid expenses | - | - | 6,938 | - | 6,938 |
| Unreserved | 814,499 | 22,286 | 505,781 | 35,956 | 1,378,522 |
| Total fund balances | 814,499 | 22,286 | 512,719 | 35,956 | 1,385,460 |
| Total liabilities and fund balances | <u>\$ 946,484</u> | <u>\$ 43,023</u> | <u>\$ 522,001</u> | <u>\$ 39,112</u> | <u>\$ 1,550,620</u> |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

| Nonvoted Debt Service Fund | Total Nonmajor Governmental Funds |
|----------------------------------|--|
| \$ 346,148 | \$ 1,693,972 |
| 8,211 | 8,211 |
| - | 179,900 |
| - | 15,958 |
| - | 6,938 |
| <u>\$ 354,359</u> | <u>\$ 1,904,979</u> |

| | |
|--------------|---------------|
| \$ - | \$ 97,898 |
| - | 11,219 |
| <u>8,211</u> | <u>64,254</u> |
| 8,211 | 173,371 |

| | |
|-------------------|---------------------|
| 346,148 | 346,148 |
| - | 6,938 |
| <u>-</u> | <u>1,378,522</u> |
| <u>346,148</u> | <u>1,731,608</u> |
| <u>\$ 354,359</u> | <u>\$ 1,904,979</u> |

City of Mount Clemens, Michigan

| | Special Revenue Funds | | | | |
|--|---------------------------------|------------------|-------------------|-----------------------|--------------------------------|
| | Major Streets and Trunklines | Local Streets | Dial-A-Ride | Public Improvement | Total Special Revenue Funds |
| Revenue | | | | | |
| Property taxes | \$ - | \$ - | \$ 400,889 | \$ - | \$ 400,889 |
| State-shared - Grants and other | 816,544 | 292,700 | - | - | 1,109,244 |
| Local intergovernmental revenue | - | - | 63,203 | - | 63,203 |
| Special assessments | - | - | - | 40,087 | 40,087 |
| Charges for services | - | - | 73,741 | - | 73,741 |
| Interest | 36,976 | 3,732 | 22,587 | 1,073 | 64,368 |
| Miscellaneous revenue | 2,312 | 4,065 | 8,375 | - | 14,752 |
| Total revenue | 855,832 | 300,497 | 568,795 | 41,160 | 1,766,284 |
| Expenditures | | | | | |
| Public works | 752,790 | 559,682 | 546,444 | 43,902 | 1,902,818 |
| Debt service: | | | | | |
| Principal retirement | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - |
| Total expenditures | 752,790 | 559,682 | 546,444 | 43,902 | 1,902,818 |
| Excess of Revenue Over (Under) | | | | | |
| Expenditures | 103,042 | (259,185) | 22,351 | (2,742) | (136,534) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | 190,000 | - | - | 190,000 |
| Transfers out | (177,663) | (19,768) | - | - | (197,431) |
| Total other financing sources (uses) | (177,663) | 170,232 | - | - | (7,431) |
| Net Change in Fund Balances | (74,621) | (88,953) | 22,351 | (2,742) | (143,965) |
| Fund Balances - Beginning of year | 889,120 | 111,239 | 490,368 | 38,698 | 1,529,425 |
| Fund Balances - End of year | <u>\$ 814,499</u> | <u>\$ 22,286</u> | <u>\$ 512,719</u> | <u>\$ 35,956</u> | <u>\$ 1,385,460</u> |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

| Nonvoted Debt Service Fund | Total Nonmajor Governmental Funds |
|----------------------------------|---|
| \$ - | \$ 400,889 |
| - | 1,109,244 |
| - | 63,203 |
| 32,524 | 72,611 |
| - | 73,741 |
| 3,557 | 67,925 |
| <u>-</u> | <u>14,752</u> |
| 36,081 | 1,802,365 |
| - | 1,902,818 |
| 100,000 | 100,000 |
| <u>6,981</u> | <u>6,981</u> |
| <u>106,981</u> | <u>2,009,799</u> |
| (70,900) | (207,434) |
| 27,431 | 217,431 |
| <u>-</u> | <u>(197,431)</u> |
| <u>27,431</u> | <u>20,000</u> |
| (43,469) | (187,434) |
| <u>389,617</u> | <u>1,919,042</u> |
| <u>\$ 346,148</u> | <u>\$ 1,731,608</u> |

City of Mount Clemens, Michigan

Other Supplemental Information Combining Balance Sheet Fiduciary Funds - Agency Funds June 30, 2008

| | <u>Tax Collections</u> | <u>Agency Fund</u> | <u>Total</u> |
|-----------------------------------|-----------------------------|------------------------------|------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 5,748 | \$ 114,505 | \$ 120,253 |
| Due from other governmental units | <u>30,000</u> | <u>74,063</u> | <u>104,063</u> |
| Total assets | <u>\$ 35,748</u> | <u>\$ 188,568</u> | <u>\$ 224,316</u> |
| Liabilities | | | |
| Due to other governmental units | \$ 35,748 | \$ - | \$ 35,748 |
| Cash bonds and deposits | <u>-</u> | <u>188,568</u> | <u>188,568</u> |
| Total liabilities | <u>\$ 35,748</u> | <u>\$ 188,568</u> | <u>\$ 224,316</u> |

City of Mount Clemens, Michigan

**Federal Awards
Supplemental Information
June 30, 2008**

City of Mount Clemens, Michigan

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Independent Auditor's Report

To the Honorable Mayor
and City Commission
City of Mount Clemens, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Mount Clemens, Michigan's basic financial statements, and have issued our report thereon dated September 22, 2008. Those basic financial statements are the responsibility of the management of the City of Mount Clemens, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Clemens, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 22, 2008



Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor
and City Commission
City of Mount Clemens, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mount Clemens, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Mount Clemens, Michigan's basic financial statements, and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mount Clemens, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mount Clemens, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Clemens, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2008-3 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor
and City Commission
City of Mount Clemens, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness. We believe the deficiencies described in the schedule of findings and questioned costs as items 2008-1 and 2008-2 constitute material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mount Clemens, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to the management of the City of Mount Clemens in a separate letter dated September 22, 2008.

The City of Mount Clemens, Michigan's response to the significant deficiency and material weaknesses identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Commission, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 22, 2008



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Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor
and City Commission
City of Mount Clemens, Michigan

Compliance

We have audited the compliance of the City of Mount Clemens, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The major federal program of the City of Mount Clemens, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Mount Clemens, Michigan's management. Our responsibility is to express an opinion on the City of Mount Clemens, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mount Clemens, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Mount Clemens, Michigan's compliance with those requirements.

In our opinion, the City of Mount Clemens, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-4.

To the Honorable Mayor
and City Commission
City of Mount Clemens, Michigan

Internal Control Over Compliance

The management of the City of Mount Clemens, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mount Clemens, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, and certain matters that we reported to the City of Mount Clemens management in a separate letter dated September 22, 2008.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-4 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The City of Mount Clemens, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Mount Clemens, Michigan's response and, accordingly, we express no opinion on it.

To the Honorable Mayor
and City Commission
City of Mount Clemens, Michigan

This report is intended solely for the information and use of the City Commission, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moreau, PLLC

September 22, 2008

City of Mount Clemens, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

| Federal Agency/Pass-through Agency/Program Title | CFDA Number | Pass-through Entity | Award Amount | Federal Expenditures |
|--|----------------|-------------------------|-----------------|----------------------------|
| | | Project/Grant Number | | |
| U.S. Department of Housing and Urban Development - Passed through Macomb County - Community Development Block Grants/Entitlement Grants: | 14.218 | | | |
| Program year 2001 | | B-01-MC-26-0038 | \$ 181,000 | \$ 1,726 |
| Program year 2002 | | B-02-MC-26-0038 | 163,000 | 12,127 |
| Program year 2003 | | B-03-MC-26-0038 | 217,594 | 26,472 |
| Program year 2004 | | B-04-MC-26-0038 | 157,460 | 18,401 |
| Program year 2005 | | B-05-MC-26-0038 | 180,306 | 17,062 |
| Program year 2006 | | B-06-MC-26-0038 | 174,000 | 11,493 |
| Program year 2007 | | B-07-MC-26-0038 | 126,000 | <u>64,324</u> |
| Total Community Development Block Grants/Entitlement Grant | | | | 151,605 |
| Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds: | 66.468 | | | |
| Project number 7143-01 | | DWRF#7143-01 | 3,900,000 | 1,239,321 |
| Project number 7230-01 | | DWRF#7230-01 | 320,000 | <u>101,154</u> |
| Total Drinking Water State Revolving Fund Grant | | | | <u>1,340,475</u> |
| Total federal awards | | | | <u>\$ 1,492,080</u> |

City of Mount Clemens, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

| | |
|---|----------------------------|
| Revenue from federal sources - As reported on financial statements | \$ 151,605 |
| Add federal funding for Drinking Water Revolving Funds not reported as revenue in the basic financial statements | <u>1,340,475</u> |
| Federal expenditures per the schedule of expenditures of federal awards | <u>\$ 1,492,080</u> |

City of Mount Clemens, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Mount Clemens, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|--|
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

| Reference Number | Findings |
|---------------------|--|
| 2008-1 | <p>Finding Type - Material weakness</p> <p>Criteria - The City of Mount Clemens, Michigan is required to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP).</p> <p>Condition - Certain year-end accrual adjustments, report reclassifications, and footnote disclosures were not identified and/or recorded by the City prior to the commencement of the year-end audit. These items were corrected in the June 30, 2008 financial statements with the assistance of the auditors.</p> <p>Context - None</p> <p>Cause and Effect - The resources of the finance department are sufficient for handling the day-to-day operations of the City, but personnel do not have capacity to address all of the necessary year-end closing adjustments and disclosure items. As a result, there are often adjustments that are made with the assistance of the auditors during the course of the year-end audit.</p> <p>Views of Responsible Officials - The City has determined that enlisting the assistance of the auditors in identifying certain year-end accrual adjustments, report reclassifications, and footnote disclosures is a cost-effective means of preparing financial statements according to GAAP.</p> |

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

| Reference Number | Findings |
|---------------------|--|
| 2008-2 | <p>Finding Type - Material weakness</p> <p>Criteria - Reconciliation of bank accounts from the ledger to bank statements, secondary review of pension reconciliations and wire transfers, and retention of wire transfer documentation are integral components of the City of Mount Clemens' financial reporting and internal control structure. Reconciliations should be prepared and reviewed in a timely manner to ensure that accurate financial information is available to management and the governing body on a timely basis. Secondary review of wire transfer activity should be evidenced by the sign-off and date of the reviewer and documentation from the bank confirming transfer should be retained.</p> <p>Condition - During the audit, we noted bank reconciliations were not prepared in a timely manner throughout the year, pension reconciliations were not subjected to a secondary review, wire transfers were initiated without secondary approval, and bank confirmation documenting the transfers was not retained.</p> <p>Context - None</p> <p>Cause and Effect - As a result of staffing shortages during the year, the finance department was not able to address all of the duties required of the department according to the desired timeframe. As a result, important controls (reconciliation and secondary reviews) were not consistently operating throughout the year and adjustments resulting from the completion of bank reconciliations were not made in a timely manner.</p> <p>Views of Responsible Officials - The City is aware of the importance of the reconciliation process and will prepare bank reconciliations in a more timely manner. The City is also aware of the importance of secondary review and document retention, and will ensure that pension reconciliations and wire transfers are properly approved, and associated documentation is retained.</p> |

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

| Reference Number | Findings |
|---------------------|---|
| 2008-3 | <p>Finding Type - Significant deficiency</p> <p>Criteria - Segregation of duties between financial applications and informational technology applications is an important internal control necessary to ensure the integrity of the City's financial records.</p> <p>Condition - Currently, the finance director has administrative access to the accounting system, and the ability to post journal entries.</p> <p>Context - None</p> <p>Cause and Effect - Due to limited staffing and lack of a dedicated IT department, the finance director has full access to the accounting systems and can post journal entries without mitigating controls in place, such as a secondary review of the journal entries posted.</p> <p>Views of Responsible Officials - The City has concluded to restrict the finance director from the journal entry function.</p> |

City of Mount Clemens, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section III - Federal Program Audit Findings

| Reference Number | Findings |
|---------------------|--|
| 2008-4 | <p>Program Name - Capitalization Grants for Drinking Water State Revolving Funds, CFDA #66.468</p> <p>Pass-through Entity - Michigan Department of Environmental Quality</p> <p>Finding Type - Significant deficiency and material noncompliance</p> <p>Criteria - As required by the cash management compliance category, federal grant monies may only be drawn down to fund immediate cash needs.</p> <p>Condition - Cash was drawn down by the City and held on deposit to fund retainages payable to contractors that are not explicitly required by the contracts and will not be paid until completion of the related projects.</p> <p>Questioned Costs - None</p> <p>Context - We selected a sample of five drawdown requests from throughout the year and noted that all five requests included contractor retainages in the amount to be drawn.</p> <p>Cause and Effect - The City's internal control over grant compliance did not prevent or detect the drawdown of funds for items that would not be paid within three days of being drawn. As a result, they violated the cash management compliance category.</p> <p>Views of Responsible Officials and Planned Corrective Actions - For retainages that will be paid with federal funds, the City will only draw down funds within three days of the date the retainage is payable.</p> |

City of Mount Clemens, Michigan

Report to the City Commission

June 30, 2008

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

We have recently completed our audit of the basic financial statements of the City of Mount Clemens, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following communication.

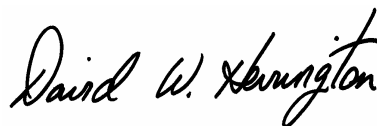
| | <u>Page</u> |
|--|-------------|
| Report on Internal Control | I-3 |
| Results of the Audit | 4-6 |
| Informational - Legislative Matters, Etc. | 7-8 |

This communication is intended solely for the information and use of management, the Honorable Mayor, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

We are grateful for the opportunity to be of service to the City of Mount Clemens, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "David W. Herrington".

David W. Herrington

A handwritten signature in black ink that reads "Lisa C. Manetta".

Lisa C. Manetta



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Report on Internal Control

September 22, 2008

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Dear Mayor and Commissioners:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the City of Mount Clemens, Michigan's (the "City") financial management. Specifically, they require us to report internal control issues to you that may be relatively minor in order to allow you to evaluate their significance, and make the changes you deem appropriate. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Mount Clemens, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Segregation of IT Duties - As part of implementing *Statements on Auditing Standards 104 - III* (the "Risk Assessment Standards"), we performed an evaluation of the City's internal control over information technology with the assistance of our information technology specialists. During this review, we noted a lack of segregation between access to financial applications and informational technology applications. We recommend that the City consider restricting individuals with administrative access on the network from access to post transactions in the financial systems. This allows for proper segregation of duties and ensures that user access and accountability controls are not compromised. If staffing limitations continue to necessitate that individuals have access to both applications, we recommend that the activities be logged and independently reviewed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Year-end Closing Adjustments - During the audit, we generally provide assistance in identifying and calculating the numerous year-end accrual adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB Statement 34. Accruals represent adjustments other than cash activity that impact the accounting records (accounts payable and construction retainages, property tax and grant receivables, capital assets, pension general ledger balances, long-term debt and deferred charges, modified accrual revenue recognition, etc.). We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as pension reserves and bond reserve requirements) and researching proper accounting treatment for significant unusual transactions that may occur during the year (such as reporting the City's interest in the 41-B District Court and accruing for environmental remediation activities.) We are pleased to assist in this process - our auditors have expertise in these sorts of adjustments and reporting issues and can generally assist in a very cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Bank Reconciliation and Wire Transfer Processes - Sound internal control includes the reconciliation of general ledger accounts to supporting subsidiary ledgers, reports, and third-party statements on a periodic basis. During our audit, we noted that the City's cash accounts were not reconciled to supporting records in a timely manner. The monthly reconciliation of accounts helps ensure that accurate financial information is available on a timely basis and serves as an important internal control. We recommend that bank reconciliations be performed in a timely manner, and that items requiring adjustment to the general ledger or communication with the bank be addressed concurrently with the reconciliation process. Sound internal controls also include document retention policies and secondary reviews. During our audit, we noted that wire transfers were performed for which no confirmation documentation from the bank was retained and a secondary review was not performed. We also noted that a secondary review of pension reconciliations is not performed. We recommend that secondary review of all wire transfers and pension reconciliations be performed, and that bank confirmation of all wire transfers be retained.

These significant deficiencies and material weaknesses are also required to be reported in the report on internal controls over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*, which is included in the supplemental schedule of federal financial assistance (the single audit report). Management has evaluated these matters and documented their response within that separately issued report.

We noted the following other matters during the course of the audit that are not considered to be significant deficiencies or material weaknesses, but we believe warrant your attention and consideration:

Calculation of DDA Capture - Our audit of the City's property taxes revealed an error in the calculation of the DDA's base year taxable value which resulted in an adjustment to the DDA's 2008 tax capture amounts. This adjustment was not significant to the City taken as a whole, but we bring this to your attention as a potential area for increased secondary review given the critical need for accuracy in property tax calculations.

General IT Controls - In addition to the lack of segregation of duties noted above, our review of the City's controls over IT noted several critical improvements that we would recommend the City consider:

- **User Access** - A formal system does not exist to document the addition of new users to the system, the removal of terminated employees, or changes to employee responsibilities that require adjustment of their access rights within the system. There is also no process in place to regularly review the access rights of current employees to ensure they are in line with each individual's job responsibilities.
- **Other Controls** - In addition to user access controls, there are enhancements to the procedures for review of firewalls, policies regarding passwords (complexity, length, etc.), environmental and physical controls, and backup procedures that we recommend be put in place as part of an overall information security program. We would be happy to discuss these items in more specific detail with management or the board.



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Results of the Audit

September 22, 2008

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Dear Mayor and Commissioners:

We have audited the financial statements of the City of Mount Clemens, Michigan (the "City") for the year ended June 30, 2008 and have issued our report thereon dated September 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 23, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Mount Clemens, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have made this communication as part of our single audit report (the federal awards supplemental information report) dated September 22, 2008.

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 17, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Mount Clemens are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

We noted no transactions entered into by the City of Mount Clemens, Michigan during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the liability for environmental remediation.

Management's estimate of liability related to remediation activities on a former landfill, including the installation of an interception system and monitoring and maintenance costs, is based on communication with the engineers designing the remediation system and legal counsel advising management in the matter. We evaluated the key factors and assumptions used to develop the environmental remediation liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

To the Honorable Mayor and City Commission
City of Mount Clemens, Michigan

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

Informational

Fund Deficits - As disclosed in the notes to the financial statements, both the Water Supply and Ice Arena Enterprise Funds continue to have a deficit of unrestricted net assets at June 30, 2008. As a result, the City is required to document and submit a plan to eliminate the deficits with the State of Michigan.

Interfund Balances - Cumulative through June 30, 2008, the Sewage Disposal Fund has advanced approximately \$716,000 to the Water Supply Fund and the General Fund has advanced approximately \$534,000 to the Ice Arena Fund (in addition to operating transfers made to that fund to subsidize its operations). There is currently no specific plan in place for those balances to be settled. We recommend that the City evaluate the ability of the Water Supply and Ice Arena Funds to repay the amounts owed and establish a repayment plan. If repayment cannot be reasonably assured, consideration should be given as to whether those advances represent operating transfers to the owing funds.

Property Tax Revenue - As has been widely publicized, recent conditions in the real estate market are expected to have a negative impact on taxable values. The good news is that a given drop in market values will not result in an equivalent drop in taxable values because of the gap between assessed value and taxable value. On the other hand, this dampened effect is diminished each year we continue with market declines and the gap lessens between the two values. In other words, if we were to experience a theoretical 10 percent market decline for three consecutive years, the effect on taxable value (which would be different for each community) might be a 1 percent drop the first year, 4 percent the next year, and 7 percent in the third. For this reason, it will be important to closely monitor taxable value, since this has the capacity to severely impact future years.

Potential Legislation Impacting Property Taxes - As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act.

The nature of the legislation has ranged from the suspension of the “pop-up” or increase in taxable value that occurs when a property sells or a “super cap” on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the City.

Lastly, more personal property tax relief is also part of the new Michigan business tax. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. Industrial personal property will receive exemptions from the six SET mills and the 18 schools operating mills (for a total 24 mill exemption). Commercial personal property will be exempt from 12 of the 18 school operating mills.

Revenue Sharing - There appears to be some positive news relative to the state legislature's funding of state-shared revenue. While we still remain cautious about this important revenue source, the current proposals call for a small increase in the statutory portion of funding for the year beginning October 1, 2008. However, to a great extent, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, the statutory formula expired in 2007 and a new, permanent formula has not been enacted.

We will continue to monitor this revenue source and inform you of any significant changes.

Retiree Health Care - As you are aware, the City provides postemployment benefits for all eligible employees that are funded currently from various funds. For the year ended June 30, 2008, the cost of these benefits amounted to approximately \$1,538,000, representing an increase of approximately 6 percent over the 2007 amount.

The Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, to provide guidance to local units of government for recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to obtain an actuarial valuation of the obligation to provide retiree healthcare benefits. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the financial statements. Lastly, the City will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. For the year ending June 30, 2009, the actuarial determined required contribution is calculated to be \$2,422,000, which would include the pay-as-you-go cost for current retirees as well as prefunding for future benefits. The changes required under GASB Statement No. 45 will be effective in 2009. We would be happy to assist the City in further understanding the provisions of GASB Statement No. 45.

This information is intended solely for the use of the Honorable Mayor, the City Commission, and management of the City of Mount Clemens, Michigan and is not intended to be and should not be used by anyone other than these specified parties.